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DRAFTED BY: S/S-O: BRIAN O'GRADY

APPROVED BY: S/S-O: P. PETER SARROS

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FM SECSTATE WASHDC

TO AMEMBASSY NAIROBI IMMEDIATE

C O N F I D E N T I A L STATE 190541

TOECO 41

FOR UNDERSECRETARY CASEY

FOLLOWING SENT ACTION SECSTATE INFO BEIRUT, JIDDA, KUWAIT, LONDON,
TEHRAN AND THE HAGUE FROM TRIPOLI SEP 24 REPEATED YOU:

QUOTE

C O N F I D E N T I A L TRIPOLI 1233

E.O. 11652: GDS

TAGS: ENRG, LY

SUBJ: OIL NATIONALIZATIONS: STANDOFF SITUATION

1. SUMMARY: MAJORS VS LARG STANOFF CONTINUES. ON
SEPT 22 PETROLEUM MINISTRY UNDER SECRETARY MUNTASIR
PROPOSED PLAN TO KEEP OIL FLOWING WHILE BOTH SIDES
LOOK FOR MUTUALLY ACCEPTABLE BASIS FOR CONTINUED
OPERATION OF MAJORS IN LIBYA. THIS PROBABLY RESULT
OF DISAPPOINTMENT IN OASIS INABILITY TO INCREASE
PRODUCTION ENOUGH TO HELP OFFSET SHUT-IN OF MAJORS.
FLEXIBILITY, HOWEVER, LIMITED BY CLEAR LARG PRE-
CONDITION THAT COMPANIES NEGOTIATE WITH KNOWLEDGE
THAT NO DEAL BETTER THAN OASIS' IS POSSIBLE.

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2. IN SEPT 22 MEETINGS WITH LOCAL REPS OF SHELL,

ESSO, MOBIL AND AMOSEAS, MUNTASIR PROPOSED PLAN TO KEEP OIL MOVING FOR ANOTHER TWO MONTHS WHILE BOTH SIDES LOOK FOR ACCEPTABLE WAY OUT OF CURRENT IMPASSE. MUNTASIR'S PLAN CALLS FOR COMPANIES TO CONTINUE LOADING CRUDE ONTO NATIONAL OIL COMPANY (NOC)-DESIGNATED SHIPS WITHOUT SPECIFICALLY IDENTIFYING OIL AS NATIONALIZED AND THEREFORE "HOT". COMPANIES WOULD SIMPLY SET UP A SUSPENSE ACCOUNT FOR TRANSFERS OF CRUDE TO NOC. COMPANIES COULD DEFINE THIS CRUDE AS ROYALTY-IN-KIND OR OIL PROVIDED TO NOC UNDER PREVIOUS SUPPLY AGREEMENT TO PROVIDE "COST OIL" FOR LIBYA'S INTERNAL CONSUMPTION. NOC WOULD RESTRICT ITS LIFTINGS TO AMOUNTS POSSIBLE UNDER PREVIOUS AGREEMENTS FOR ROYALTY AND COST OIL, TOTALING APPROXIMATELY 15 PERCENT OF PRODUCTION. COMPANIES WOULD BE ABLE TO LIFT REMAINING AMOUNTS OF PRE-SEPTEMBER PRODUCTION ALLOWABLES. COMPANIES MUST, HOWEVER, ACCEPT THAT THERE NO HOPE OF DEAL ON TERMS BETTER THAN THOSE AGREED TO BY OASIS.

3. UNDER THIS PROPOSAL, CONFRONTATION ON DEFINITION OF NOC CRUDE AS NATIONALIZED, OR ROYALTY-IN-KIND OR SALES TO NOC, WOULD NOT COME UNTIL NOVEMBER 30 TAX ACCOUNTS ARE DUE. AT THAT TIME COMPANIES WOULD ATTEMPT REDUCE THEIR TAX LIABILITY BY THE AMOUNT OF THE VALUE OF CRUDE OIL WHICH THEY DEFINE AS ROYALTY-IN-KIND OR COST OIL. LARG, IN TURN, WOULD CONTEND THAT OIL WAS NATIONALIZED PROPERTY OF NOC. BENEFITS FOR BOTH SIDES IN MUNTASIR'S PLAN LIE IN ADDITIONAL TIME TO NEGOTIATE AND PERHPAS DREAM UP SOME NEW SCHEME TO FURTHER POSTPONE A LEGAL CONFRONTATION.

4. LARG CLEARLY HOPES THAT DEVELOPMENTS IN THE GULF WILL MAKE IT POSSIBLE FOR MAJORS TO ACCEPT 51 PER CENT NATIONALIZATION ON SAME TERMS AS OASIS DEAL. MAJORS' POSITION WILL, NO DOUBT, BE DETERMINED IN CORPORATE HEADQUARTERS AND WILL PROBABLY REST UPON COMPANY LAWYERS' ESTIMATE OF LIKELY EFFECT ACCEPTANCE OF TEMPORARY "TRUCE" ON COMPANIES' LEGAL POSITION IN LATER CHASING OF HOT OIL. LOCAL MANAGERS DIFFER ON GUESSES AS TO LIKELY OUTCOME. MOBIL AND SHELL EXPECT ACCEPTANCE OF TEMPORARY "TRUCE". ESSO AND AMOSEAS MANAGERS ARE LESS OPTIMISTIC. MUNTASIR PLAN COULD ALSO BE TORPEDORED BY LARG BUREAUCRACY. LIBYAN
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DIRECTOR OF AT LEAST ONE MAJOR OPERATION (AMOSEAS) ALREADY SHOWING SIGNS OF IMPATIENCE TO END "PHONY WAR" STAGE OF LARG MAJORS' CONFRONTATION.

5. MUNTASIR POSITION ON SEPTEMBER 22 CLEARLY INDICATES THAT HE, AT LEAST, VERY MUCH WANTS MAJORS TO STAY IN LIBYA. THIS PROBABLY IS RESULT LARG HIGH-LEVEL DECISION TO AVOID CONFRONTATION FOR AT LEAST TIME BEING.

STRONGLY SUSPECT THAT LIBYAN WILLINGNESS TO SEARCH FOR MUTUALLY ACCEPTABLE DEAL WITH COMPANIES IS RESULT LARG DISAPPOINTMENT WITH PRODUCTION IN OASIS FIELDS. LARG PERMITTED OASIS TO RAISE PRODUCTION TO 910,000 BBLS/DAY AT BEGINNING OF CONFRONTATION WITH MAJORS. OASIS, HOWEVER, HAS BEEN UNABLE TO RAISE PRODUCTION TO THAT LEVEL. WITH MAXIMUM EFFORT, SEPTEMBER 21 PRODUCTION FROM OASIS FIELDS WAS 827,000 BBLS/DAY; SEPTEMBER 22 WAS 830,000. ENGINEERS SAY FIELDS CANNOT SUSTAIN MORE THAN 850,000 B/D WITHOUT DRILLING NEW WELLS AND WITHOUT SUBSTANTIAL IMPROVEMENT IN WORK-PERMIT SITUATION, WHICH CREATING SERIOUS GAPS IN FIELD TECHNICAL STAFF. LARG BUREAUCRACY UNWILLING OR UNABLE THUS FAR TO CONTRIBUTE TO ALLEVIATION OF OASIS PROBLEMS. WORK PERMITS FOR EXPATRIATE TECHNICAL STAFF STILL BEING HELD UP. MINISTRY OF PETROLEUM GEOLOGY DEPARTMENT FRUSTRATING DRILLING PROGRAM IN OASIS FIELDS. OASIS WANTS TO DRILL "IN FIELD" WELLS IN DAFFA FIELD WHICH THEY EXPECT WILL PRODUCE 6,000 B/D EACH. MINISTRY OF PETROLEUM INSISTING ON STEP-OUT WELLS WHICH WILL FLOW AT ONLY 1,500 B/D EACH. WITHOUT SURPRISING CHANGE IN BEHAVIOR OF LARG BUREAUCRACY, LARG'S HOPE-FOR INCREASE IN PRODUCTION FROM LARG-OWNED OR SHARED OPERATIONS ARE UNLIKELY.

6. FINAL BIT OF ATMOSPHERICS WAS INCIDENT AT EMBASSY SEPTEMBER 20 AS ONE OF MAJORS MANAGERS LEFT CHARGE'S OFFICE AFTER CALL TO GIVE US LATEST SITUATION REPORT. ADMIN ASSISTANT ASKED ECONOFF "WHO WAS THAT?" WHEN ECONOFF REPLIED "MR. BLANK OF X OIL COMPANY", THE ADMIN ASSISTANT SAID "I THOUGHT HE WAS A MUCH YOUNGER MAN". HE WAS -- SIX MONTHS AGO.
JOSIF

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UNQUOTE RUSH

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